

Arrow Exploration Corp.
Interim Condensed Consolidated Financial Statements
June 30, 2021
In United States Dollars
(Unaudited)

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**Notice of No Auditor Review of the Interim Condensed Consolidated Financial Statements
as at and for the three months ended June 30, 2021**

Under National Instrument 51-102, Part 4, subsection 4.3 (3)(a), if an auditor has not performed a review of the interim condensed consolidated financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

Arrow Exploration Corp.
Consolidated Statements of Financial Position
In United States Dollars
(Unaudited)

As at	Notes	June 30, 2021	December 31, 2020
Assets			
Current			
Cash		\$ 4,559,231	\$ 11,473,204
Restricted cash	3	6,376	262,489
Trade and other receivables	4	2,045,681	2,456,590
Taxes receivable	5	1,738,219	1,659,683
Deposits and prepaid expenses		212,430	77,382
Inventory		211,999	29,304
		<u>8,773,936</u>	<u>15,958,652</u>
Non-current assets			
Restricted cash	3	496,881	460,283
Exploration and evaluation	6	6,961,667	6,961,667
Property and equipment	7	9,716,067	10,151,697
		<u>9,716,067</u>	<u>10,151,697</u>
Total Assets		\$ 25,948,551	\$ 33,532,299
Liabilities			
Current			
Accounts payable and accrued liabilities		\$ 5,614,063	\$ 12,101,989
Lease obligation	9	18,656	17,279
Promissory note	8	-	5,772,324
		<u>5,632,719</u>	<u>17,891,592</u>
Non-current liabilities			
Long-term debt	10	32,272	31,416
Lease obligation	9	45,461	53,563
Other liabilities	11	177,500	177,500
Decommissioning liability	12	2,663,622	2,584,907
Promissory note	8	6,135,132	-
Total liabilities		<u>14,686,706</u>	<u>20,738,978</u>
Shareholders' equity			
Share capital	13	50,740,292	50,740,292
Contributed surplus		971,534	1,521,845
Deficit		(40,124,060)	(38,879,338)
Accumulated other comprehensive loss		(325,921)	(589,478)
Total shareholders' equity		<u>11,261,845</u>	<u>12,793,321</u>
Total liabilities and shareholders' equity		\$ 25,948,551	\$ 33,532,299

Nature of operations and going concern (Note 1)

Commitments and contingencies (Note 14)

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board:

signed "Gage Jull" Director
Gage Jull

signed "Maria Charash" Director
Maria Charash

Arrow Exploration Corp.
Interim Consolidated Statements of Operations and
Comprehensive Loss
In United States Dollars
(Unaudited)

		For the three months ended June 30,		For the six months ended June 30,	
	Notes	2021	2020	2021	2020
Revenue					
Oil and natural gas		\$ 1,058,616	\$ 890,728	\$ 2,047,419	\$ 5,036,108
Royalties		(116,997)	5,283	(258,367)	(291,617)
		<u>941,619</u>	<u>896,011</u>	<u>1,789,052</u>	<u>4,744,491</u>
Expenses					
Operating		493,028	1,107,527	735,173	3,258,552
Administrative		913,069	845,164	2,291,697	2,205,064
Share based payments	14	(278,254)	(33,504)	(550,311)	(178,531)
Financing costs:					
Accretion	13	32,906	153,002	64,969	304,884
Interest		115,883	246,189	377,687	502,096
Other		716	60,447	46,463	112,795
Risk management activities	16(a)	-	766,424	-	-
Foreign exchange loss		18,965	(88,627)	(40,692)	(93,490)
Depletion and depreciation		333,282	397,082	603,712	1,841,936
Impairment of oil and gas properties	8	-	-	-	27,263,110
Other expense (income)		46,341	(21,691)	(494,924)	(23,793)
		<u>1,675,936</u>	<u>3,432,013</u>	<u>3,033,774</u>	<u>35,192,623</u>
Loss before taxes		(734,317)	(2,536,002)	(1,244,722)	(30,448,132)
Income taxes (recovery)					
Current		-	(45,921)	-	(8,786)
Deferred		-	(5,659,000)	-	(7,550,000)
		<u>-</u>	<u>(5,704,921)</u>	<u>-</u>	<u>(7,558,786)</u>
Net income (loss) for the period		(734,317)	3,168,919	(1,244,722)	(22,889,346)
Other comprehensive income (loss)					
Foreign exchange		<u>277,028</u>	<u>(8,075)</u>	<u>263,557</u>	<u>14,204</u>
Net income (loss) and comprehensive income (loss) for the period		\$ (457,289)	\$ 3,160,844	\$ (981,165)	\$(22,875,142)
Income (loss) per share					
- basic and diluted		\$ (0.01)	\$ 0.05	\$ (0.02)	\$ (0.33)
Weighted average shares outstanding					
- basic and diluted ⁽¹⁾		68,674,602	68,674,602	68,674,602	68,674,602

(1) The options and warrants have been excluded from the diluted loss per share computation as they are anti-dilutive.

The accompanying notes are an integral part of these condensed consolidated financial statements.

Arrow Exploration Corp.
Interim Condensed Statements of Changes in Shareholders' Equity
In United States Dollars
(Unaudited)

	Share Capital	Contributed Surplus	Accumulated other comprehensive loss	Deficit	Total Equity
Balance January 1, 2021	\$ 50,740,292	\$ 1,521,845	\$ (589,478)	\$ (38,879,338)	\$ 12,793,321
Net loss for the period	-	-	-	(1,244,722)	(1,244,722)
Comprehensive income for the period	-	-	263,557	-	263,557
Share based payments	-	(550,311)	-	-	(550,311)
Balance June 30, 2021	\$ 50,740,292	\$ 971,534	\$ (325,921)	\$ (40,124,060)	\$ 11,261,845

	Share Capital	Contributed Surplus	Accumulated other comprehensive loss	Deficit	Total Equity
Balance January 1, 2020	\$ 50,740,292	\$ 1,603,788	\$ (541,393)	\$ (6,646,246)	\$ 45,156,441
Net loss for the period	-	-	-	(22,889,346)	(22,889,346)
Comprehensive income for the period	-	-	14,204	-	14,204
Share based payments	-	(178,531)	-	-	(178,531)
Balance June 30, 2020	\$ 50,740,292	\$ 1,425,257	\$ (527,189)	\$ (29,535,592)	\$ 22,102,768

The accompanying notes are an integral part of these consolidated financial statements.

Arrow Exploration Corp.
Interim Condensed Consolidated Statements of Cash Flows
In United States Dollars
(Unaudited)

For the six months ended June 30,	2021	2020
Cash flows used in operating activities		
Net loss	\$ (1,244,722)	\$ (22,889,346)
Items not involving cash:		
Deferred taxes	-	(7,550,000)
Share based payment	(550,311)	(178,531)
Depletion and depreciation	603,712	1,841,936
Impairment of oil and gas properties	-	27,263,110
Interest on leases	3,440	11,641
Interest on promissory note, net of forgiveness	318,099	-
Accretion	64,969	304,884
Foreign exchange loss (gain)	186,696	(161,939)
Gain on change in leases	-	(17,981)
Changes in non-cash working capital balances:		
Restricted cash	256,113	-
Trade and other receivables	410,909	1,534,681
Taxes receivable	(78,537)	(257,108)
Deposits and prepaid expenses	(135,047)	9,193
Inventory	(182,695)	100,802
Accounts payable and accrued liabilities	(4,351,550)	(1,551,380)
Cash used in operating activities	<u>(4,698,924)</u>	<u>(1,540,038)</u>
Cash flows provided by (used in) investing activities		
Additions to exploration and evaluation assets	-	(180,795)
Additions to property and equipment	(81,952)	-
Changes in non-cash working capital	(2,136,379)	983,704
Cash flows (used in) provided by investing activities	<u>(2,218,331)</u>	<u>802,909</u>
Cash flows used in financing activities		
Lease payments	(12,047)	(47,946)
Increase in long-term debt	-	29,352
Cash flows used in financing activities	<u>(12,047)</u>	<u>(18,594)</u>
Effect of changes in the exchange rate on cash	15,329	(91,685)
Increase (decrease) in cash	(6,913,973)	(847,408)
Cash, beginning of period	<u>11,473,204</u>	<u>1,085,655</u>
Cash, end of period	4,559,231	\$ 238,247
Supplemental information		
Interest paid	\$ -	\$ 71,709
Taxes paid	\$ -	\$ -

The accompanying notes are an integral part of these consolidated financial statements.

Arrow Exploration Corp.
Notes to the Interim Consolidated Financial Statements
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(Unaudited)

June 30, 2021

1. Corporate Information

Arrow Exploration Corp. (“Arrow” or “the Company”) is a public junior oil and gas company engaged in the acquisition, exploration and development of oil and gas properties in Colombia and in Western Canada. The Company’s shares trade on the TSX Venture Exchange under the symbol AXL. The head office of Arrow is located at 1430, 333 – 11th Ave SW, Calgary, Alberta, Canada, T2R 1L9 and the registered office is located at Suite 1600, 421 – 7th Avenue SW, Calgary, Alberta, Canada, T2P 4K9.

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The Company had a net loss of \$32,233,092 for the year 2020 and had a working capital of \$3,141,217 as at June 30, 2021. During 2020, oil and gas prices have been significantly depressed and the global impact of the COVID-19 pandemic has fostered a great deal of uncertainty for the future operations of the Company. The Company’s ability to continue as a going concern is dependent on management’s ability to identify additional sources of capital and to raise sufficient resources to fund ongoing operating expenses and commitments. There is no assurance these initiatives will be successful in the future. These conditions indicate the existence of material uncertainties that may cast significant doubt regarding the applicability of the going concern assumption. These interim condensed consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. These adjustments could be material.

2. Basis of Presentation

Statement of compliance

These interim condensed consolidated financial statements (the “Financial Statements”) have been prepared in accordance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting. These Financial Statements were authorised for issue by the board of directors of the Company on August 27, 2021. They do not contain all disclosures required by International Financial Reporting Standards (“IFRS”) for annual financial statements and, accordingly, should be read in conjunction with the audited consolidated financial statements as at December 31, 2020.

These Financial Statements have been prepared on the historical cost basis, except for financial assets and liabilities recorded in accordance with IFRS 9. The Financial Statements have been prepared using the same accounting policies and methods as the consolidated financial statements for the year ended December 31, 2020. In preparing these condensed consolidated financial statements, the significant judgements made by management in applying the group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2020.

3. Restricted Cash

	June 30, 2021	December 31, 2020
Colombia (i)	\$ 60,102	\$ 316,216
Canada (ii)	443,155	406,556
Sub-total	503,257	722,772

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Long-term portion		<u>(496,881)</u>		(460,283)
Current portion of restricted cash	\$	<u>6,376</u>	\$	<u>262,489</u>
(i)	<i>Restricted cash is comprised by a deposit held as collateral to guarantee abandonment expenditures related to the Mateguafa well and funds in-trust related to resuming production in the Rio Cravo Este-1 well in the Tapir block</i>			
(ii)	<i>Pursuant to Alberta government regulations, the Company was required to pay a \$335,272 (CAD \$415,557) deposit with respect to the Company's liability rating management ("LMR"). The deposit is held by a Canadian chartered bank with interest paid to the Company on a monthly basis based on the bank's deposit rate. The remaining \$107,883 pertain to lease and other deposits held in Canada.</i>			

4. Trade and other receivables

		June 30, 2021		December 31, 2020
Trade receivables, net of advances	\$	185,718	\$	99,061
Other accounts receivable		<u>1,859,963</u>		<u>2,357,529</u>
Total trade and other receivables	\$	<u>2,045,681</u>	\$	<u>2,456,590</u>

As at June 30, 2021, other accounts receivable include \$1,593,482 (December 31, 2020 – \$2,185,890) receivable from a partner in the Tapir block and corresponds to reimbursable capital expenditures incurred on the Tapir block, which are expected to be recovered through production during 2021.

5. Taxes receivable

		June 30, 2021		December 31, 2020
Value-added tax (VAT) credits recoverable	\$	608,740	\$	932,282
Income tax withholdings and advances, net		<u>1,129,479</u>		<u>727,401</u>
	\$	<u>1,738,219</u>	\$	<u>1,659,683</u>

The VAT recoverable pertains to non-compensated value-added tax credits originated in Colombia as operational and capital expenditures are incurred. Most of the Company's sales are considered exports, which are not subject to VAT. The Company is entitled to claim for the reimbursement of these VAT credits.

6. Exploration and Evaluation

		June 30, 2021		December 31, 2020
Balance, beginning and end of the period	\$	<u>6,961,667</u>	\$	<u>6,961,667</u>

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Notes to the Interim Consolidated Financial Statements
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7. Property and Equipment

Cost	Oil and Gas Properties	Right of Use and Other Assets	Total
Balance, December 31, 2020	\$ 30,436,344	\$ 182,105	\$ 30,618,449
Additions	83,073	-	83,073
Balance, June 30, 2021	\$ 30,519,417	\$ 182,105	\$ 30,701,522
Accumulated depletion and depreciation and impairment			
Balance, December 31, 2020	\$ 20,718,742	\$ 83,207	\$ 20,801,949
Depletion and depreciation	587,833	15,878	603,711
Balance, June 30, 2021	\$ 21,306,575	\$ 99,085	\$ 21,405,660
Foreign exchange			
Balance December 31, 2020	\$ 339,363	\$ (4,166)	\$ 335,197
Effects of movements in foreign exchange rates	82,835	2,173	85,008
Balance June 30, 2021	\$ 422,198	\$ (1,993)	\$ 420,205
Net Book Value			
Balance December 31, 2020	\$ 10,056,965	\$ 94,732	\$ 10,151,697
Balance June 30, 2021	\$ 9,635,040	\$ 81,027	\$ 9,716,067

As at June 30, 2020, the Company reviewed its cash-generating unit's ("CGU") property and equipment and determined that there were indicators of impairment present related to the decrease in reserves. The company prepared estimates of both the value in use and fair value less costs of disposal of its CGUs and it was determined that carrying value of each CGU exceeded its recoverable amount and, therefore, an impairment provisions of \$27,263,110 was required. The following table outlines forecast benchmark prices and exchange rates used in the Company's impairment test as at June 30, 2020:

Year	Exchange rate \$US / \$Cdn	AECO Spot Gas CDN\$/MCF	Brent \$US/Bbl
2020	0.71	1.90	32.00
2021	0.72	2.30	42.00
2022	0.73	2.40	51.00
2023	0.75	2.49	58.00
2024	0.75	2.54	62.00
2025	0.75	2.60	63.24
Thereafter (inflation %)	0.80	2.0%/yr	2.0%/yr

These benchmark prices reflect the price forecasts, effective June 30, 2020 from Boury Global Energy Consultants.

The Company used a 15% discount rate in Canada, and 17.5% in Colombia for the June 30, 2020 impairment test, which took into account risks specific to each CGU and inherent in the oil and gas business. As at June 30, 2020, a 0.5% decrease in the discount rate applied or 2% change in the forecast benchmark prices would not have resulted in additional impairment.

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8. Promissory Note

The promissory note was issued to Canacol Energy Ltd. (“Canacol”) as partial consideration in the acquisition of Carrao Energy S.A. from Canacol. The promissory note bears interest at 15% per annum, was initially due on January 28, 2019 and subsequently extended to April 30, 2019, October 1, 2020 and April 1, 2021. Arrow and Canacol entered into a third, fourth and fifth Amended and Restated Promissory Notes in December 2019, March and August 2020, respectively.

In May 2021, a sixth and amended and restated promissory note was agreed with Canacol which includes that the new principal amount of the promissory note is \$6,026,166 (including interest and fees), which bears interest at an annual rate of 15%, and includes the following repayment provisions:

- In the event that the Company does not complete a successful equity financing of \$12,000,000 or more by September 30, 2021, the payment of the principal plus interest shall be made as follows:
 - Two payments of \$1,600,000 in cash due on July 30 and December 30, 2022; and
 - Issuance of common shares of the Company on July 30, 2022 for the remaining balance for an amount of shares resulting from Canacol having less than 19.9%, with any remainder payable in cash
- In the event that the Company completes a successful equity financing of \$12,000,000 or more by September 30, 2021, the payment of the principal plus interest shall be made as follows:
 - One payment of \$3,200,000 in cash due 15 days from the financing closing date; and
 - At the discretion of the Company, the balance shall be paid either in cash or by issuance of common shares of the Company for an amount of shares resulting from Canacol having less than 19.9%, and any remainder balance payable in cash.

The Company also commits to replace the letters of credit currently guaranteed by Canacol and, Canacol commits to absorb the Company’s commitments and balances related to the OBC pipeline dispute. The Company has granted a general security interest to Canacol for the obligations under the Promissory Note which will be subordinated to second position in the event the Company secures additional financing.

9. Lease Obligations

A reconciliation of the discounted lease obligation is set forth below:

	2021
Obligation, beginning of the period	\$ 70,842
Changes in existing lease	-
Lease payments	(12,047)
Accretion	3,440
Effects of movements in foreign exchange rates	1,882
Obligation, end of the period	\$ 64,117
Current portion	\$ 18,656
Long-term portion	45,461
	\$ 64,117

As at June 30, 2021, the Company has the following future commitments associated with its office lease obligations:

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Less than one year	\$ 24,228
2 – 5 years	50,379
Total lease payments	74,607
Amounts representing interest over the term	(10,490)
Present value of the net obligation	\$ 64,117

10. Long-term debt

During 2020, the Company owes \$32,272 (CAD\$40,000) from the Canadian Emergency Business Account (CEBA) program implemented by the government of Canada to provide support to small businesses affected by the COVID-19 pandemic. The loan does not bear any interest until December 2022 and is subject to a 25% forgiveness if the full balance is repaid before that date.

11. Other Liabilities

The other liabilities of the Company relate to an environmental fee in Colombia that is levied on capital projects. The fee is calculated as 1% of the project cost. The program is administered by the Colombian National Authority of Environmental Licences (“ANLA”) and is levied on projects that utilize surface water or deep water wells that may have an impact on the environment. The funds are generally used in the affected communities for purposes of land purchases, biomechanical works (e.g. containment walls in rivers), reforestation, research projects and others. At June 30, 2021 the Company had provided for \$177,500 (December 31, 2020 - \$177,500) for the environmental fee.

12. Decommissioning Liability

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the decommissioning of oil and gas properties.

	June 30, 2021	December 31, 2020
Obligation, beginning of the year	\$ 2,584,907	\$ 8,173,222
Change in estimated cash flows	-	(109,864)
Obligations recognized	-	-
Liabilities disposed	-	(6,016,514)
Accretion expenses	64,969	524,477
Effects of movements in foreign exchange rates	13,746	13,586
Obligation, end of the year	\$ 2,663,622	\$ 2,584,907

The obligation was calculated using a risk-free discount rate range of 1.0% to 2.0% in Canada (2020: 1.50% to 2.75%) and 5.90% in Colombia (2020: 5.90%) with an inflation rate of 2.0% and 2.5%, respectively (2020: 2.0% and 2.5%). It is expected that the majority of costs are expected to occur between 2022 and 2033. The undiscounted amount of cash flows, required over the estimated reserve life of the underlying assets, to settle the obligation, adjusted for inflation, is estimated at \$3,779,120 (2020: \$4,072,683).

13. Share Capital

(a) Authorized: Unlimited number of common shares without par value

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(b) Issued:

Common shares	Shares	Amounts
Balance as at June 30 2021 and December 31, 2020	68,674,602	\$ 50,740,292

(c) Stock options:

The Company has a stock option plan that provides for the issuance to its directors, officers, employees and consultants options to purchase a number of non-transferable common shares not exceeding 10% of the common shares that are outstanding from time to time which is the number of shares reserved for issuance under the plan. The exercise price is based on the closing price of the Company's common shares on the day prior to the day of the grant. A summary of the status of the Company stock option plan as at June 30, 2021 and December 31, 2020 and changes during the respective periods ended on those dates is presented below:

Stock Options	June 30, 2021		December 31, 2020	
	Number of options	Weighted average exercise Price (CAD \$)	Number of options	Weighted average exercise price (CAD \$)
Beginning of period	6,859,000	\$0.40	5,470,000	\$0.99
Granted	-	-	4,319,000	\$0.05
Exercised	-	-	-	-
Expired/Forfeited	(1,145,000)	\$1.04	(2,930,000)	\$0.96
End of period	5,714,000	\$0.27	6,859,000	\$0.40
Exercisable, end of period	2,369,669	\$0.40	1,530,001	\$1.06

Date of Grant	Number Outstanding	Exercise Price (CAD \$)	Weighted Average Remaining Contractual Life	Date of Expiry	Number Exercisable December 31, 2020
October 22, 2018	1,050,000	\$1.15	7.32 years	Oct. 22, 2028	700,000
May 3, 2019	345,000	\$0.31	7.85 years	May 3, 2029	230,002
March 20, 2020	1,200,000	\$0.05	8.73 years	March 20, 2030	400,000
April 13, 2020	2,775,000	\$0.05	8.79 years	April 13, 2030	925,000
June 18, 2020	344,000	\$0.05	8.97 years	June 18, 2030	114,667
Total	5,714,000	\$0.27	8.46 years		2,369,663

During the three months ended June 30, 2021, the Company recognized \$550,310 (2020 – \$145,027) as share based payments income, with a corresponding decrease in the contributed surplus account.

(d) Phantom shares:

During 2020, the Company adopted a phantom share program for compensation of its Directors and executives and granted 13,000,000 phantom common shares of the Company which are vested immediately at CAD \$0.00 per share. As at June 30, 2021, the Company has accrued \$1,258,333 as share based payments, which are included in accounts payable and accrued liabilities at such date.

(e) Phantom stock options:

During 2020, the Company adopted a phantom stock option program for compensation of its executives and granted 1,681,000 phantom stock options of the Company which are vested in equal parts over the three following years after granted. As at June 30, 2021, the Company has accrued \$ 84,050 as share based payments, which are included in accounts payable and accrued liabilities at such date.

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14. Commitments and Contingencies

Exploration and Production Contracts

The Company has entered into a number of exploration contracts in Colombia which require the Company to fulfill work program commitments and issue financial guarantees related thereto. In aggregate, the Company has outstanding exploration commitments at June 30, 2021 of \$17.8 million. The Company, in conjunction with its partners, have made applications to cancel a further \$15.5 million (\$5.8 million Arrow's share) in commitments on the Macaya and Los Picachos blocks. The remaining commitments are expected to be satisfied by means of seismic work, exploration drilling and farm-outs. Presented below are the Company's exploration and production contractual commitments at June 30, 2021:

Block	Less than 1 year	1-3 years	Thereafter	Total
COR-39	-	12,000,000	-	12,000,000
Los Picachos	-	1,970,000	-	1,970,000
Macaya	-	3,830,000	-	3,830,000
Total	-	17,800,000	-	17,800,000

Contingencies

From time to time, the Company may be involved in litigation or has claims sought against it in the normal course of business operations. Management of the Company is not currently aware of any claims or actions that would materially affect the Company's reported financial position or results from operations. Under the terms of certain agreements and the Company's by-laws the Company indemnifies individuals who have acted at the Company's request to be a director and/or officer of the Company, to the extent permitted by law, against any and all damages, liabilities, costs, charges or expenses suffered by or incurred by the individuals as a result of their service.

Oleoducto Bicentenario de Colombia ("OBC") Pipeline

The Company is party to an agreement with Canacol that entitles it to a 0.5% interest in OBC, which owns a pipeline system intended to link Llanos basin oil production to the Caño Limon oil pipeline system in Colombia. Likewise, Canacol is currently in litigation with OBC in relation to ship or pay obligations that were terminated by Canacol in July 2018 under force majeure. On March 27, 2019, the court in charge of the case ruled in favor of the OBC and opined that the obligations under the ship or pay contract remains in force. Subsequently, on May 13, 2019, Canacol filed an appeal at the State Council, a higher-level court in the Colombian judiciary system, requesting annulment of this ruling. Likewise, in July 2019, OBC has also started litigation against Canacol for not honouring its ship or pay obligations under the contract.

During 2020, there has been negotiations between the parties involved in order to settle this case and settlement agreements have been submitted to courts for their approval. Depending on the final outcome of this dispute, Arrow may be required to satisfy past and future ship or pay obligations and has accrued \$658,654 accordingly.

Letters of Credit

At June 30, 2021, the Company had obligations under Letters of Credit ("LC's") outstanding totaling \$5.2 million to guarantee work commitments on exploration blocks and other contractual commitments. Of the total, approximately \$4.1 million has been guaranteed by Canacol. Under an agreement, Canacol will continue to provide security for Arrow's Letters of Credit providing that Arrow uses all reasonable efforts to replace the LC's. In the event the Company fails to secure the renewal of the letters of credit underlying the ANH guarantees, or any of them, the ANH could decide to cancel the underlying exploration and production contract for a particular block, as applicable. In this instance, the Company could risk losing its entire interest in the applicable block, including all capital

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expended to date and could possibly also incur additional abandonment and reclamation costs if applied by the ANH.

Current Outstanding Letters of Credit

Contract	Beneficiary	Issuer	Type	Amount (US \$)	Renewal Date
Tapir	ECP	Samaria Llanos	Abandonment	\$52,898	Dec. 26, 2021
SANTA	ANH	Carrao Energy	Abandonment	\$643,423	April 14, 2022
ISABEL	ANH	Canacol and Carrao	Financial Capacity	\$1,672,162	December 31, 2021
CORE - 39	ANH	Canacol	Compliance	\$2,400,000	December 31, 2021
OMBU	ANH	Carrao Energy	Financial Capacity	\$436,300	April 14, 2022
Total				\$5,204,783	

15. Financial Instruments

The Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to commodity price, credit and foreign exchange risks. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

(a) Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in commodity prices. Lower commodity prices can also impact the Company's ability to raise capital. Commodity prices for crude oil are impacted by world economic events that dictate the levels of supply and demand. From time to time the Company may attempt to mitigate commodity price risk through the use of financial derivatives.

i) Financial Derivative Contracts

During 2020, the Company had one financial derivative contract in order to manage commodity price risk. This instrument was not used for trading or speculative purposes. Arrow had not designated its financial derivative contract as effective accounting hedge, even though the Company considered the commodity contract to be an effective economic hedge. As a result, the financial derivative contract was recorded on the statements of financial position at fair value, with the changes in fair value being recognized as an unrealized gain or loss in the statement of operations and comprehensive loss. This contract was terminated during 2020.

The estimated fair value of the derivative financial instrument in Level 2 at each measurement date have been determined based on appropriate internal valuation methodologies and/or third party indications. Level 2 fair values determined using valuation models require the use of assumptions concerning the amount and timing of future cash flows and discount rates. In determining these assumptions, the Company primarily relied on external, readily-observable quoted market inputs as applicable, including crude oil forward benchmark commodity prices and volatility, and discounted to present value as appropriate. The resulting fair value estimates may not necessarily be indicative of the amounts that could be realized or settled in a current market transaction and these differences may be material. The realized gain on risk management activities is included as part of revenues in the consolidated statements of operations and comprehensive loss. The gains on risk management activities for the period are comprised as follows:

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	For the three months ended June 30	
	2021	2020
Realized risk management gain on commodity contract settled	\$ -	\$ 1,288,523
Unrealized gain on commodity contract outstanding	-	-
	\$ -	\$ 1,288,523

(b) Credit Risk

Credit risk reflects the risk of loss if counterparties do not fulfill their contractual obligations. The majority of the Company's account receivable balances relate to petroleum and natural gas sales and balances receivables with partners in areas operated by the Company. The Company's policy is to enter into agreements with customers that are well established and well financed entities in the oil and gas industry such that the level of risk is mitigated. In Colombia, a significant portion of the trade accounts receivable balance is with producing company, which accounts for more than 85% of such balance, under an existing sale/offtake agreement with prepayment provisions and priced using the Brent benchmark. Other accounts receivable include a significant balance with a partner with an existing agreement to use 50% of its production entitlement to repay this balance.

The Company's trade account receivables primarily relate to sales of crude oil and natural gas, which are normally collected within 25 days (in Canada) and 15 days in advance (in Colombia) of the month of production. Other accounts receivable mainly relate to balances owed by the Company's partner in one of its blocks, and are mainly recoverable through production. The Company has historically not experienced any collection issues with its customers and partners.

(c) Market Risk

Market risk is comprised of two components: foreign currency exchange risk and interest rate risk.

i) Foreign Currency Exchange Risk

The Company operates on an international basis and therefore foreign exchange risk exposures arise from transactions denominated in currencies other than the United States dollar. The Company is exposed to foreign currency fluctuations as it holds cash and incurs expenditures in exploration and evaluation and administrative costs in foreign currencies. The Company incurs expenditures in Canadian dollars, United States dollars and the Colombian peso and is exposed to fluctuations in exchange rates in these currencies. There are no exchange rate contracts in place.

ii) Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is not currently exposed to interest rate risk as it borrows funds at a fixed coupon rate of 15% on the promissory notes.

(d) Liquidity Risk

Liquidity risk includes the risk that, as a result of the Company's operational liquidity requirements:

- The Company will not have sufficient funds to settle a transaction on the due date;
- The Company will be forced to sell financial assets at a value which is less than what they are worth; or
- The Company may be unable to settle or recover a financial asset.

The Company's approach to managing its liquidity risk is to ensure, within reasonable means, sufficient liquidity to meet its liabilities when due, under both normal and unusual conditions, without incurring unacceptable losses or jeopardizing the Company's business objectives.

The Company prepares annual capital expenditure budgets which are monitored regularly and updated as considered necessary. Petroleum and natural gas production is monitored daily to provide current cash flow estimates and the Company utilizes authorizations for expenditures

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on projects to manage capital expenditures. Any funding shortfall may be met in a number of ways, including, but not limited to, the issuance of new debt or equity instruments, further expenditure reductions and/or the introduction of joint venture partners.

(e) Capital Management

The Company's objective is to maintain a capital base sufficient to provide flexibility in the future development of the business and maintain investor, creditor and market confidence. The Company manages its capital structure and makes adjustments in response to changes in economic conditions and the risk characteristics of the underlying assets. The Company considers its capital structure to include share capital, bank debt (when available), promissory notes and working capital, defined as current assets less current liabilities. In order to maintain or adjust the capital structure, from time to time the Company may issue common shares or other securities, sell assets or adjust its capital spending to manage current and projected debt levels. The Company monitors leverage and adjusts its capital structure based on its net debt level. Net debt is defined as the principal amount of its outstanding debt, less working capital items. In order to facilitate the management of its net debt, the Company prepares annual budgets, which are updated as necessary depending on varying factors including current and forecast crude oil prices, changes in capital structure, execution of the Company's business plan and general industry conditions. The annual budget is approved by the Board of Directors and updates are prepared and reviewed as required.

The Company's capital includes the following:

	June 30, 2021	December 31, 2020
Working capital, before promissory note	3,141,217	3,839,384
Promissory note	(6,135,132)	(5,772,324)
	\$ (2,993,915)	\$ (1,932,940)

The current challenging economic climate may lead to further adverse changes in cash flows, working capital levels and debt balances, which may also have a direct impact on the Company's operating results and financial position. These and other factors may adversely affect the Company's liquidity and its ability to generate income and cash flows in the future. At June 30, 2021, the Company remains in compliance with all terms of its debt and, based on current available information, management expects to comply with all terms during the subsequent 12 months period. However, in light of the current volatility in commodity prices and uncertainty regarding the timing for recovery in such prices and the effect of the COVID-19 pandemic, the preparation of financial forecast is challenging.

16. Segmented Information

The Company has two reportable operating segments: Colombia and Canada. The Company, through its operating segments, is engaged primarily in oil exploration, development and production, and the acquisition of oil and gas properties. The Canadian segment is also considered the corporate segment. The following tables show information regarding the Company's segments for the three and six months ended and as at June 30:

Three months ended June 30, 2021	Colombia	Canada	Total
Revenue:			
Oil Sales	\$ 933,103	\$ -	\$ 933,103
Natural gas and liquid sales		125,513	125,513
Royalties	107,497	9,500	116,997
Expenses	1,196,850	479,086	1,675,936
Net loss	\$ (371,244)	\$ (363,073)	\$ (734,317)

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Six months ended June 30, 2021	Colombia	Canada	Total
Revenue:			
Oil Sales	\$ 1,799,933	\$ -	\$ 1,701,009
Natural gas and liquid sales	-	247,486	247,486
Royalties	236,036	22,331	258,367
Expenses	1,734,851	1,298,923	3,033,774
Net income (loss)	\$ (170,954)	\$ (1,073,768)	\$ (1,244,722)

As at June 30, 2021	Colombia	Canada	Total
Current assets	\$ 4,797,199	\$ 3,976,737	\$ 8,773,936
Non-current:			
Restricted cash	53,726	443,155	496,881
Exploration and evaluation	6,961,667	-	6,961,667
Property and equipment	6,568,383	3,147,684	9,716,067
Total Assets	\$ 18,380,975	\$ 7,567,576	\$ 25,948,551

Current liabilities	\$ 4,064,824	\$ 1,567,895	\$ 5,632,719
Non-current liabilities:			
Other liabilities	177,500	-	177,500
Lease obligation	-	45,461	45,461
Decommissioning liability	2,142,865	520,757	2,663,622
Long-term debt	-	32,272	32,272
Promissory note	-	6,135,132	6,135,132
Total liabilities	\$ 6,385,189	\$ 8,301,517	\$ 14,686,706

Three months ended June 30, 2020	Colombia	Canada	Total
Revenue:			
Oil Sales	\$ 820,731	\$ -	\$ 820,731
Natural gas and liquid sales	-	69,997	69,997
Other	3,046	18,645	21,691
Royalties	(13,304)	8,021	(5,283)
Expenses	2,677,906	775,798	3,453,704
Impairment of oil and gas properties	-	-	-
Taxes	(5,704,922)	-	(5,704,922)
Net income (loss)	\$ 3,864,096	\$ (695,177)	\$ 3,168,919

Six months ended June 30, 2020	Colombia	Canada	Total
Revenue:			
Oil Sales	\$ 4,887,561	\$ -	\$ 4,887,561
Natural gas and liquid sales	-	148,547	148,547
Other	3,615	20,177	23,792
Royalties	278,262	13,355	291,617
Expenses	6,177,407	1,775,899	7,953,306
Impairment of oil and gas properties	27,263,110	-	27,263,110
Taxes	(7,558,786)	-	(7,558,786)
Net income (loss)	\$ (21,268,816)	\$ (1,620,530)	\$ (22,889,346)

As at June 30, 2020	Colombia	Canada	Total
Current assets	\$ 5,508,874	\$ 63,317	\$ 5,572,191
Non-current:			
Deferred income taxes	5,726,000	-	5,726,000
Other receivables	788,777	-	788,777
Restricted cash	53,726	383,686	437,412
Exploration and evaluation	7,142,462	-	7,142,462
Property, plant and equipment	24,635,547	3,084,552	27,720,099
Total Assets	\$ 43,855,385	\$ 3,531,555	\$ 43,386,940

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Current liabilities	\$ 6,758,930	\$ 3,303,573	\$ 10,062,503
Non-current liabilities:			
Derivative liability	-	100	100
Other liabilities	1,007,849	-	1,007,849
Lease obligation	-	58,315	58,315
Decommissioning liability	7,986,914	470,837	8,457,751
Long-term debt	-	29,352	29,352
Promissory note	-	5,668,302	5,668,302
Total liabilities	\$ 15,753,693	\$ 9,530,479	\$ 25,284,172